

Consultation on rule 37 accuracy requirement under the Gas (Downstream Reconciliation) Rules 2008

1 Introduction

Rule 37.3 of the Gas (Downstream Reconciliation) Rules 2008 (the 'Rules') requires that, prior to the beginning of each gas year, Gas Industry Co determine and publish a percentage of error for the accuracy of the consumption information provided for initial allocation (when compared against consumption information provided for final allocation). This accuracy requirement only applies to consumption data for allocation groups 3 to 6.

For the consumption periods in the current gas year ending on 30 September 2009, Gas Industry Co previously determined the maximum percentage of error for the accuracy of the consumption information provided for initial allocation to be applied in accordance with rule 37 to be **+/-15%**.

This consultation paper seeks submitters' views on the appropriate percentage of error to be determined by Gas Industry Co for the consumption periods in the gas year commencing 1 October 2009.

Two weeks are being allowed for consultation. Submissions are sought no later than Thursday, 10 September 2009. Submissions can be made by registering on Gas Industry Co's website www.gasindustry.co.nz and uploading your submission, preferably in the form of the submissions template attached as Appendix A to the consultation document. All submissions will be published on the website after the closing date. For further information, see *Help for New Users* on the Gas Industry Co homepage. Submitters should discuss any intended provision of confidential information with Gas Industry Co prior to submitting the information.

2 Background

The development of an appropriate percentage of accuracy has a fairly lengthy history. The issue was first raised by Gas Industry Co in a reconciliation discussion paper released in January 2007. That paper proposed that in relation to non-TOU meters, criteria should be established that would compare the accuracy of data provided for the initial month-end allocation against the data provided for the final allocation 12 months later. It was suggested that the initial allocation data be required to be within +/-2% of the final allocation data.

The submissions received in response to that paper on the accuracy criteria issue were concerned that the proposed accuracy threshold of +/-2% was too narrow, especially when a rolling three month basis was used. It was suggested there may have been some confusion about the +/-2% threshold specified in the Reconciliation Code. After considering the submissions received, Gas Industry Co revised its view in the Statement of Proposal paper on

downstream allocation and reconciliation released on 1 September 2007. While there was general agreement to the accuracy target approach, submitters were concerned that the proposed estimation accuracy range of +/-2% would be too 'tight'. It was therefore proposed that the initial accuracy range be set at +/-15% which would be reviewed by Gas Industry Co from time to time to ensure that it is providing the right incentive to retailers to ensure they are using an accurate forward estimate methodology.¹

The nature and scope of the accuracy requirement, and the matters that Gas Industry Co must have regard to in setting the accuracy requirement, are described in rule 37 of the Rules. Rule 37 is set out in full in Appendix B.

3 Current 2008/2009 gas year accuracy requirement

Previous submissions

In respect of last year's determination of the accuracy percentage, a consultation paper was issued seeking participants' views on Gas Industry Co's initial assessment of the matters specified in rule 37.4. This initial assessment was that a measure of 15% (i.e. +/-15%) for the consumption periods in the gas year commencing 1 October 2008 would be appropriate.²

Except for Vector, all of the allocation participants who responded (ie Contact, Genesis, Mighty River Power, Nova and Powerco) supported a +/-15% error for the first year of the new regime. Additional constraints proposed by these submitters were that: the measure is only appropriate for the initial year (Genesis); the measure is the highest level of error that should be allowed (Powerco); and the error should be subject to exceptional circumstances, particularly where a retailer has a small number of consumers and low associated volumes at a gas gate (Nova). Vector submitted that the proposed +/-15% was unacceptable, as the measure provided inadequate incentives for mass-market retailers to improve their performance. Vector considered listing the allocation participants by the level of accuracy they achieve provides a better incentive. In the alternative, Vector contended that +/-10% percentage would be more appropriate. A full summary of submissions is set out in Appendix C.

Other points noted by submitters in relation to the matters Gas Industry Co must have regard to when determining an appropriate percentage of error included:

Upstream	<ul style="list-style-type: none"> The impact of the percentage of error, for the accuracy of consumption information
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¹ See Statement of Proposal dated 1 September 2007, paragraphs 8.31 to 8.33 of that paper – which stated:

"For allocation groups 5 and 6, retailers will be required to provide a forward estimate of consumption for those customers where an actual meter reading has not been obtained (and therefore the calculation of an historic estimate is not possible). While the forward estimation methodology has not been specified in the draft rules, retailers will be required to ensure that the accuracy of the information provided to the allocation agent for the initial and final allocations falls within the accuracy range specified and published, from time to time, by Gas Industry Co.

Gas Industry Co considers that the requirement to meet an estimation accuracy target, as well as the ability to audit a retailer's forward estimation methodology if concerns are raised, is sufficient to improve accuracy of consumption information at this time without mandating a forward estimation methodology."

² Gas Industry Co notes that the accuracy percentage determined for each gas year applies to the consumption periods in the relevant gas year (rather than the final allocations occurring in the relevant gas year) – see rule 37.3 as set out in Appendix B. For example, the +/-15% accuracy percentage for the 2008/09 gas year applies to the consumption periods of October 2008 to September 2009 and their final allocations in November 2009 to October 2010 will determine whether the +/-15% accuracy percentage has been complied with.

considerations	<p>provided for initial allocation, on shippers supplying gas at a gas gate in respect of a consumption period (Contact).</p> <ul style="list-style-type: none"> • Due to the methodology for pipeline balancing, there are financial impacts on retailers as a result of the accuracy of the initial allocation which operate as an additional incentive to get the initial allocation as accurate as possible (Genesis). • Wash-up data is used to recalculate transmission and distribution charges. However, the Vector Transmission Code (VTC) prevents wash-up information being used to reallocate balancing costs so the 15% error will give rise to misallocation of balancing costs which is unacceptable (Nova).
The volatility of gas demand	<ul style="list-style-type: none"> • Gas demand is difficult to predict due to the volatile nature of gas consumption as a result of weather and other conditions (Genesis).
Costs	<ul style="list-style-type: none"> • Gas Industry Co needs to be cognisant of the addition costs of technology that retailers will need to invest in to be able to more accurately trend forward estimates (Genesis). • Costs and achievability need to be balanced by the overall achievement of all retailers (Mighty River Power).

Basis for 2008/2009 gas year decision

In relation to the comments made by submitters, Gas Industry Co remained of the view that a +/-15% measure sufficiently achieved (for the first gas year) the aim of ensuring consumption information provided for initial allocation is as accurate as possible when compared with consumption information provided for final allocation. Accordingly a +/-15% measure was determined for the following reasons:

- It was acknowledged that downstream reconciliation information feeds into the calculation of upstream transmission and balancing charges and that, if wash-ups are not taken into account of in the upstream calculations, this may be a factor which influences the accuracy of retailers' initial sales estimates. As well, it was noted that Vector does permit wash-ups to flow through to transmission charges, but not to balancing charges. It is understood that the different treatments are justified on the basis of the relative simplicity of recalculating transmission charges, against the complexity of recalculating balancing charges.
- Gas Industry Co appreciated that the volatility of gas demand adds complexity to the process of estimating gas consumption, particularly in relation to the mass market consumers to which the accuracy percentage will apply. Prior to the Rules coming into effect, there was no objective information available on how accurately retailers are managing to estimate gas consumption. The information generated by the Rules provides such information, which will in turn allow further refinement of the accuracy measure and help inform whether the costs and benefits of the allocation agent providing dynamic forward-looking seasonal adjustment daily shape values (SADSVs) stack up. It is also noted that historical SADSVs under the operation of the Reconciliation Code were provided to all retailers for consumption months prior to the go-live date in order to improve initial estimations.
- Gas Industry Co was cognisant that the introduction of an accuracy measure would likely result in compliance costs for retailers. The minimisation of compliance costs is an important consideration in deciding how narrow the accuracy percentage should be for the first gas

year. If a stricter accuracy percentage was initially applied (e.g. +/-5%), Gas Industry Co was concerned that large and perhaps undue costs would be incurred by retailers to achieve compliance with that percentage.

4 2009/2010 gas year accuracy requirement options

In considering the upcoming gas year's rule 37 accuracy requirement, it is useful to take into account whether retailers are in a better position, after 12 months experience with the new, rules-based arrangement, to be able to improve the accuracy of the data they submit for initial allocations. Under the previous arrangements there was not a clear nexus between a retailer's estimation accuracy and the impact of UFG allocations. The existence of the rule 37 accuracy tolerance, backed up with the compliance arrangements, means there is the opportunity for those adversely affected by other retailers' inaccuracies to seek redress. In turn, this means that there are measurable costs which retailers can use to explicitly trade-off whether to invest in technology to improve estimation accuracy or to risk being faced with costs under the compliance arrangements. The transparency associated with the Rules, such as disclosure of monthly UFG figures and the results from initial and interim allocations means that, month by month, retailers are gathering more information to be able to make decisions on this trade-off.

Gas Industry Co's initial assessment is that it would be appropriate for Gas Industry Co to either retain the status quo +/-15% percentage of error for the accuracy of consumption information or tighten the requirement to +/-10%.

Relevance of 2008/2009 gas year decision

Gas Industry Co notes that, given the final allocation occurs 13 months after the relevant consumption period, there have to date been no final allocations³ and therefore no ability to assess compliance or otherwise with the rule 37.2 accuracy requirement. In the absence of any new material information or changes in circumstances, Gas Industry Co considers this to be a factor that supports retaining the existing accuracy requirement. Similarly, Gas Industry Co's preliminary view is that the matters it had regard to in its 2008/2009 gas year decision remain equally relevant now. These are discussed in more detail below.

Information obtained since go-live

Since the Rules came into full effect in October 2008, there have been initial allocations for 11 consumption periods and interim allocations for seven consumption periods. Gas Industry Co has therefore been able to undertake some analysis on the accuracy of consumption data compared between initial and interim allocation for those seven consumption periods. While not determinative, this analysis does identify some helpful accuracy trends. This is because, for the interim allocation, retailers are required under rule 29.5 to have validated register readings for 90% of its allocation group three to six consumer installations (as opposed to 100% validated register readings for the final allocation). The results of the analysis are summarised below.

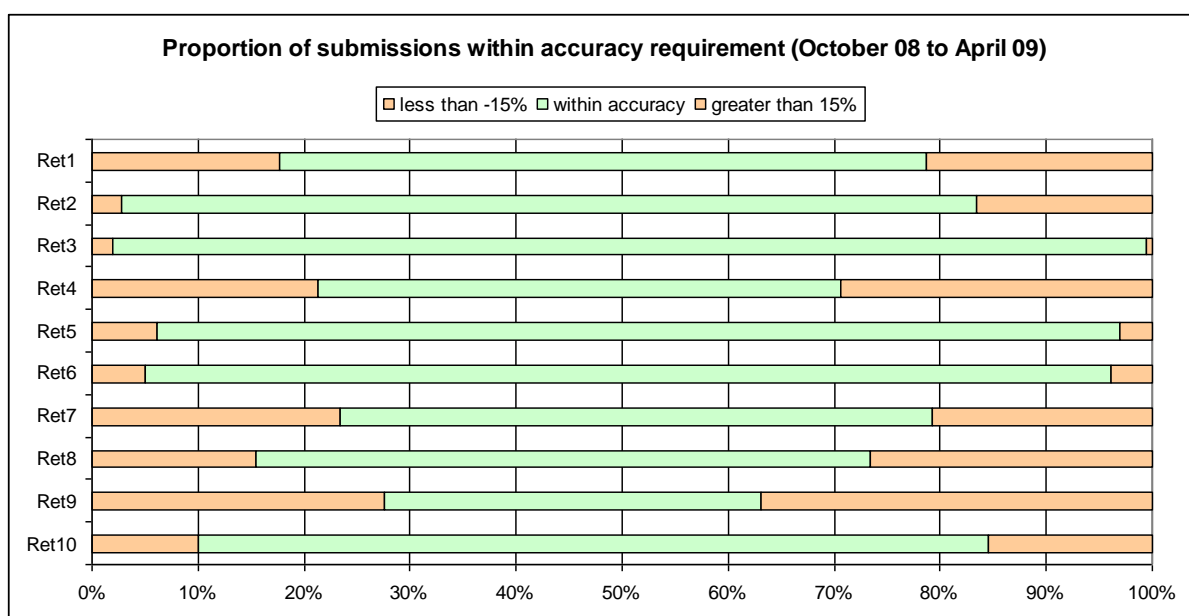
Initial vs. Interim analysis

³ As a consequence, no GAR050 reports have been generated by the allocation system to assess retailer consumption data accuracy and compliance with rule 37.2.

Consumption data provided for the initial and interim allocations for consumption months October 2008 through to April 2009 were analysed. The consumption data comprised total gigajoules per retailer per gas gate aggregated for allocation groups three to six. Initial figures were compared against interim figures and the former expressed as a percentage difference from the latter.⁴

Findings

The chart below shows the extent of retailers' compliance with the accuracy target, when comparing consumption data provided for the initial allocation with consumption data provided for the interim allocation. The green bar illustrates the proportion of submissions which fall within the 15% accuracy requirement. The orange bar to the left represents instances where the initial consumption data were less than the interim (and outside of the tolerance) and the right orange bar represents instances where the initial submission was greater than the interim.



For the consumption months analysed, every retailer exceeds the +/-15% error threshold for at least one gas gate submission. Retailers' compliance with the threshold across all months varies from 2.5% of submissions outside of the target band, for the best performing retailer (Ret3), to 64.5% of submissions outside the target band for the worst performing retailer (Ret9).

The number of instances where the percentage of error exceeded +/-15% for the interim comparison was 876 across all retailers and months, out of 2670 submissions (an average of around 125 per consumption period). Of these instances, 380 related to consumption data which were smaller for the initial allocation than the interim allocation (ie under-estimates) and

⁴ Note that:

- Where a retailer was subject to a global 1-month allocation methodology exemption at a gas gate (and hence TOU quantities were submitted as allocation group 3) these quantities were ignored for the purposes of the comparison;
- Where there was a positive submission for groups 3 to 6 at a gas gate for an initial allocation and zero submitted for the interim, this has been deemed as falling outside the threshold.
- Where there was a zero quantity submitted for groups 3 to 6 for the initial and a positive quantity submitted for the interim, the accuracy will always be outside of the threshold (with 100% percentage difference between the initial and interim).

476 related to consumption data which were larger for the initial than the interim (ie over-estimates)⁵.

There are notable cases where the 15% error threshold was exceeded but where the initial submission may not, in practice, be considered materially inaccurate. This is particularly the case where both initial and interim consumption figures are small and hence any difference, which may be small in terms of gigajoules, would be large when expressed as a percentage difference. Some examples are given below.

Initial submission (GJs)	Interim submission (GJs)	Percentage difference
16.124	2.666	504.8%
0.083	0.011	654.5%
2.498	0.538	364.3%

If the accuracy requirement were to be narrowed to +/-10% then, based on the sample data, the number of instances exceeding the tolerance for the interim comparison would increase by 30% (1138 submissions outside of the required level compared to 876). Alternatively, if the accuracy requirement were to be widened to +/-20% then, based on the sample data, the number of instances exceeding the tolerance for the interim comparison would fall by 20% (701 submissions outside of the required level compared to 876).

Clearly there is only so far that this analysis can be taken – the rule 37 accuracy requirement is an *a priori* measure which retailers are required to consciously manage. If the percentage error threshold were set at a lower level then retailers' behaviours might be expected to change and different results may have arisen. Nevertheless, the spread of percentage accuracy data is a useful tool to highlight how effective any changes to the percentage accuracy measure have been on retailers' estimation accuracy.

Conclusions

If the consumption data submitted for the final allocation do not vary significantly from the data submitted for the interim allocation (congruent with rule 29.5 compliance) then Gas Industry Co draws the following conclusions:

- The evidence suggests that the 15% accuracy requirement is likely to be breached by some, if not all, participants for at least one gas gate on a monthly basis.
- Moving the percentage error threshold down to +/-10% would be likely to significantly increase the number of breaches of the accuracy requirement if retailers did not act differently to manage the accuracy of their consumption data.

⁵ Although this suggests that retailers' consumption data for the initial allocation are more often over-estimates than under-estimates, it should be noted that the consumption months examined do not include a winter period, where under-estimating consumption (and higher resultant UFG), is generally more prevalent.

- There are likely to be some extraneous circumstances which lead to breaches of the accuracy requirement, such as where the submitted quantities are very small and where one or other of the initial and final submissions are zero.

Considerations for 2009/2010 gas year accuracy requirement

In proposing to either retain a +/-15% accuracy measure or determine a tighter +/-10% accuracy measure, Gas Industry Co notes the following issues:

- Does a +/-15% or a +/-10% measure sufficiently achieve the aim of ensuring consumption information provided for initial allocation is as accurate as possible when compared with consumption information provided for final allocation? Gas Industry Co acknowledges that this is the primary aim of the accuracy percentage and believes, for the second gas year since go-live, a +/-15% or a +/-10% measure could materially achieve that aim. Gas Industry Co appreciates that in relation to the consumer installations covered by the accuracy measure (allocation groups three to six) there can be large seasonal fluctuations that can be difficult to estimate (for example, gas demand for heating purposes during unseasonal weather), which make it difficult to accurately estimate consumption. Over time it is hoped that estimation practices may improve. For example, widespread roll out of smart meters would significantly improve allocation information. Accordingly, in the future, a narrower accuracy percentage may be appropriate.
- The final allocation process and an accuracy measure of +/-15% or +/-10% should together bring benefits to the industry (in terms of improved allocation practices) and consumers. Given that the 2009/2010 gas year is only the second gas year that the accuracy percentage will be applied, it appears unlikely that the consumption information initially provided by retailers will be at the level of accuracy that may be sought once the Rules have been in force for a length of time. The preliminary analysis outlined above in relation to the interim consumption data comparison indicates that is a likely outcome. Gas Industry Co acknowledges that a more liberal accuracy percentage in the first two years of the Rules could be appropriate so as to not place unreasonable initial compliance expectations on retailers.
- The accuracy measure will likely result in compliance costs for retailers. The analysis to date indicates that retailers are generally unable to always fit within this percentage at least for interim allocations. Gas Industry Co is aware of previous concerns from allocation participants that it would not be practicable to comply with a tighter accuracy percentage for the 2009/2010 gas year. If a stricter accuracy percentage was applied at this point (eg +/-10%), do allocation participants have any concerns that large and perhaps undue compliance costs would be incurred by retailers to achieve compliance with that percentage? Gas Industry Co notes it currently only has anecdotal knowledge of such costs, and seeks such information from industry participants for the purpose of this consultation. For example, do participants have any information on the level of costs involved to improve their systems' estimation methodologies?

- One potential benefit of a narrower percentage of error would be that a greater proportion of inaccurate submissions could be captured under the compliance process. Thus, where a participant considers that they have been materially affected by another participant's under submission at a gas gate (which amounted to an alleged breach of rule 37), then they have a means to seek compensation or damages for any loss they might have suffered as a result of the alleged breach of the accuracy requirement. For example, such losses could include any mismatch or balancing charges incurred at a gas gate as a result of an inaccurate initial allocation submission for groups four and six and where those charge have not been able to be recovered through subsequent allocations. Gas Industry Co would be interested in participants' views on whether this is an important factor for them in the determination of the accuracy measure?
- It has been suggested to Gas Industry Co that the Rules do not create the necessary incentives to encourage allocation participants to make investments and improve their processes to gather and present customers' gas consumption information in a timely and accurate manner. Due to the fact that transmission balancing charges are not subject to adjustment as a result of the wash-ups provided for in the Rules, Gas Industry Co wishes to ensure that there are adequate disincentives so as to discourage a retailer from systematically under-submitting its consumption data in allocation groups 3 to 6 to reduce exposure to balancing costs. A narrowing of the accuracy percentage would constrain the scope for such behaviour.

Q1: Do submitters support the determination of a +/-10% or +/-15% percentage of error for consumption periods in the 2009/2010 gas year under rule 37.3? Please provide reasons for your preference and indicate your views in respect of each option.

Q2: Do submitters consider the information available since go-live indicates that a change to the existing +/-15% percentage of error is appropriate or not? Please provide reasons.

Q3: In respect of the proposed +/-10% or +/-15% options for the percentage of error, do submitters have any comments or information in relation to the following matters?

– The primary aim of ensuring consumption information provided for initial allocation is as accurate as possible when compared with consumption information provided for final allocation.

– The extent to which retailers are able to comply with the percentage of error for the accuracy of consumption information provided for initial allocation.

– Any expected costs that would be reasonably incurred by retailers to achieve compliance with the percentage of error for the accuracy of consumption information provided for initial allocation.

– Any other matters relevant to Gas Industry Co's determination.

Appendix A Recommended format for submissions

To assist Gas Industry Co in the orderly and efficient consideration of submitters' responses, a suggested format for submissions has been prepared. This is drawn from the questions posed in the body of this consultation paper. Submitters are also free to include other material in their responses.

Submission from:..... (company name and contact)

Question	Comment
<p>Q1: Do submitters support the determination of a +/- 10% or +/-15% percentage of error for consumption periods in the 2009/2010 gas year under rule 37.3? Please provide reasons for your preference and indicate your views in respect of each option.</p>	
<p>Q2: Do submitters consider the information available since go-live indicates that a change to the existing +/-15% percentage of error is appropriate or not? Please provide reasons.</p>	
<p>Q3: In respect of the proposed +/-10% or +/-15% options for the percentage of error, do submitters have any comments or information in relation to the following matters?</p> <ul style="list-style-type: none"> •The primary aim of ensuring consumption information provided for initial allocation is as accurate as possible when compared with consumption information provided for final allocation. •The extent to which retailers are able to comply with the percentage of error for the accuracy of consumption information provided for initial 	

Question	Comment
<p><i>allocation.</i></p> <ul style="list-style-type: none">•Any expected costs that would be reasonably incurred by retailers to achieve compliance with the percentage of error for the accuracy of consumption information provided for initial allocation.•Any other matters relevant to Gas Industry Co's determination.	

Appendix B Rule 37 excerpt

37. Accuracy of consumption information for initial allocation

- 37.1 This rule applies to consumption information at a **gas gate** provided to the **allocation agent** for **consumer installations** in **allocation groups** 3 to 6 in respect of a **consumption period**.
- 37.2 For a **consumption period**, the accuracy of the consumption information provided by a **retailer** under rule 31 for **initial allocation** must, when compared with the consumption information provided by that retailer under rule 33 for **final allocation**, fall within the percentage of error determined and **published** by the **industry body** under rule 37.3.
- 37.3 Prior to the beginning of each **gas year**, the **industry body** must, after consulting with **allocation participants**, determine and **publish** the percentage of error for the accuracy of the consumption information provided for **initial allocation** to be applied to the **consumption periods** in the following **gas year** in accordance with rule 37.2.
- 37.4 In making its determination under rule 37.3, the **industry body** must have regard to the following matters:
- (i) The primary aim of ensuring consumption information provided for **initial allocation** is as accurate as possible when compared with consumption information provided for **final allocation**;
 - (ii) The extent to which **retailers** are able to comply with the percentage of error for the accuracy of consumption information provided for **initial allocation**;
 - (iii) Any expected costs that would be reasonably incurred by **retailers** to achieve compliance with the percentage of error for the accuracy of consumption information provided for **initial allocation**; and
- (b) Any other matter it considers relevant to its determination.

Appendix C Summary of previous submissions

The table below summarises comments made by submitters in the consultation for the rule 37 accuracy determination for the 2008/2009 gas year

Question	Comment
<p><i>Q15: Do submitters agree with the +/- 15% percentage of error that Gas Industry Co proposes to determine under rule 37.3? If not, please explain why and please propose a different percentage of error with supporting information and reasons.</i></p>	<p>Contact: We would support the proposed percentage of error accuracy between the initial and the final submission as +/- 15%. Contact therefore agrees, in principle with the approach for determining the accuracy threshold proposed by the GIC and set out in section 37 of the Reconciliation Rules. However Contact considers that the Reconciliation Rules should specifically recognise that Gate Station allocations will impact on upstream allocation and therefore proposes that the following is added to clause 37.1.4 as 37.1.4(d): "37.1.4(d) The impact of the percentage of error, for the accuracy of consumption information provided for initial allocation, on shippers supplying gas at a gas gate in respect of a consumption period;"</p> <p>Genesis: Genesis Energy agrees that the margin of error should be set at \pm 15% for the initial year of the Gas Reconciliation Rules. We currently complete monthly reviews of our forward estimate process. Through experience with other reconciliation processes we have found that we are only able to fine tune the forward estimate process once the global reconciliation process has been running.</p> <p>Mighty River Power: We found the section giving information on this subject a little confusing and disjointed. However, from previous documentation on this matter we agree to a +/-15% percentage of error that the Gas Industry Co proposes to determine.</p> <p>Nova: Yes, although the GIC will need to recognise that this should be subject to exceptional circumstances such as where a retailer have a small number of customers at a gate. A factor in the estimation error is the number of customer a retailer may have at a gate. The more customers, the higher the degree of diversity of load and the more predictable and stable the nature of aggregate demand and estimation error Retailers with small number of ICP's may have larger percentage estimate errors due to the lack of diversity. However, due to the small numbers of customers and the low volume associated, the affect is insignificant and allowance should be made for this in those situations, ie if estimate error is larger than the threshold in situations where there is a low number of customers and a low volume.</p> <p>Powerco: Powerco agrees that +/-15% is acceptable for the first year of allocation and reconciliation, however this is the highest level of error that should be allowed.</p> <p>Vector: Vector submits that the proposed \pm15% is unacceptable, even for the initial allocation. On the one hand it provides no incentive for mass-market retailers to improve their performance. On the other hand, retailers supplying commercial customers, with monthly-read meters and/or TOU meters (some with telemetry) do not need such latitude as gas volumes passing through these meters provide sufficient financial incentives on all parties to be as</p>

Question	Comment
	<p>accurate as practicable.</p> <p>Vector believes that the best incentive for participants to fine tune their forward estimation processes is by publishing the percentage error as per rule 37.1.3, and listing allocation participants by the level of accuracy they achieve. This would provide consumers with transparency to make more informed decisions.</p> <p>Vector has not provided a different percentage of error because it is of the view that this percentage of error can not be set in isolation of other work streams within the GIC. This issue needs to be considered and reviewed with the Transmission Balancing work stream as this could allow parties to 'game the system,' as running mismatch positions and balancing costs are allocated on their initial allocations.</p>
<p>Q16: Do submitters have any general comments to note on the choice of a percentage of error between +/- 10% and +/- 20%?</p>	<p>Contact: We believe +/- 15% is appropriate at the present time.</p> <p>Because of the impact of the accuracy threshold, Contact considers that the GIC should work towards a gas gate allocation methodology that yields final allocations at gate stations on the day following the day of gas delivery.</p> <p>Such a final allocation is likely to require retailers using a gate station to agree to share corrections on a rolling forward basis and to improve standards for determining initial allocations.</p> <p>We are cognisant, however, that there is a trade off between the impact of upstream balancing charges and the cost of achieving final allocations on the day following the day of gas delivery.</p> <p>Genesis: We believe 15% is right for year one. Genesis Energy request that this percentage be reviewed by the GIC on an annual basis with the aim of reducing this percentage margin over the next few years.</p> <p>There needs to be an incentive for retailers to continually attempt to shape their retail consumption, rather than merely predict consumption between 60 day read cycles.</p> <p>Mighty River Power: 15% is a reasonable figure given the information provided.</p> <p>Nova: No.</p> <p>Powerco: N/a.</p> <p>Vector: As raised above, Vector believes that $\pm 20\%$ is too large and that $\pm 10\%$ is sufficient. Consumers should be able to have some comfort that their service providers are not allowed unreasonably large margins of error. This should allow incentives to be more aligned with consumer requirements, rather than based on the lowest common denominator.</p>
<p>Q17: Do submitters have any comments or information in relation to the matters that Gas Industry Co must have regard to when determining an appropriate percentage of error?</p>	<p>Contact: As gas is a more "volatile" energy source in terms of seasonality and the desire to obtain greater accuracy in terms of comparing initial and final submissions, we would recommend that the GIC and participants explore the possibility of the Allocation Agent providing dynamic forward-looking seasonal shape values. The values provided would extend from the end of the period from which actual seasonally adjusted daily shape files have been provided up to the end of the consumption period relevant to the initial submission. Use of the "forward-looking" shape files could be mandated via the Rules to ensure consistency across Retailer submissions. In the meantime, however, any further constraints beyond the 15% would be inappropriate.</p> <p>As indicated in its response to Q15, Contact believes that the GIC should consider the impact on shippers delivering gas to a gate station.</p> <p>Genesis: Due to the methodology for pipeline balancing, there are financial</p>

Question	Comment
	<p>impacts on Retailers as a result of the accuracy of the initial allocation. Balancing costs are calculated on the initial monthly allocation. This is an additional incentive to get the initial allocation as accurate as possible.</p> <p>The GIC will need to be cognisant of the additional costs of technology Retailers will need to invest in to be able to more accurately trend forward estimates. Gas is difficult to forward predict due to the volatile nature of gas consumption as a result of weather and other conditions.</p> <p>Mighty River Power: 1. We support the statement that the primary aim is accuracy. 2. The cost and achievability needs to be balanced by the overall achievement of all retailers.</p> <p>Nova: GIC likely to be in a better position to assess after 18 months of operation.</p> <p>If the objective is to ensure that the initial estimate is as accurate as possible then a 15% threshold is not a benchmark that supports that. The reason that 15% is supportable is that there is a wash-up process so that estimation error is corrected for through time and that any financial disadvantage suffered by a party due to another parties inaccurate estimates is only temporary.</p> <p>As Nova Gas has highlighted in previous submissions, wash-ups data is used to recalculate transmission and distribution charges so any temporary misallocation should not be too much of an issue.</p> <p>However, The Vector Transmission Code currently prevents wash-up information being used to reallocate balancing costs so the 15% error will give rise to misallocation of balancing costs and this is unacceptable. In the absence of daily allocations used for reconciliation purposes on an intra month basis, wash-up information should be able to be utilised to reallocate balancing and peaking charges as well.</p> <p>Powerco: Powerco has no comment in relation to this matter.</p> <p>Vector: The possibility of targeting consumer classes should be investigated. A retailer whose customers' meters are all fitted with TOU meters should be allowed a lower percentage error than a retailer who supplies predominantly residential customers.</p> <p>In addition to publishing the percentage there must be a clear path established to reduce this percentage of error so that a clear signal and timescales is transparent to the industry.</p>